MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018 SESSION

BAC4674 – INTEGRATED CASE STUDY

(All Section / Groups)

17 MARCH 2018
9:00AM – 12:00PM
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of 4 pages excluding cover page with 5 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

Apple Inc.

Apple Inc. along with its wholly owned subsidiaries design, manufacture and market personal computers, portable digital music players and other mobile communication devices. Additionally, it also sells a variety of related software, services, peripherals and networking solutions. This is from the financial report 10-K in 2001. By 2011, the emphasis had changed – devices to the fore and computers off centre stage. Such had been the magnitude of the success of the strategy. Over the ten year period, the importance of digital devices notably mobile communication and media devices has emerged. The sale of some 575 million digital devices over the decade is witness to the strategy of the digital hub and the commitment to the consumer digital device market.

The company sells its products worldwide through its retails stores, online stores, its direct sales force and third party wholesalers, resellers and value added resellers. The company sells to consumer, small and mid-size business, education, enterprise, government and creative customers. This simple statement for the financial report, underplays the importance of multi-channel marketing to the business to the growth of the Apple business that includes third party, own retail, online stores including i- tunes, the apps store and the i-books store.

The company is committed to bringing the best personal computing, portable digital music and mobile communication experience to consumers, students, educators, businesses and government agencies through its innovative hardware and software, peripherals, services and internet offerings. The company's business strategy leverages its unique ability to design and develop its own operating system, hardware, application software and services to provide its customers new products and solutions with superior ease of use, seamless integration and innovative industrial design. The company believes that continual investment in research and development is critical to the development and enhancement of innovative products and technologies.

At the turn of the millennium, Apple identified four key market segments within the customer profile, business, creative professionals, education and high end consumers. Apple core product strengths were in the areas of Computer Aided Design (CAD) and Desktop Publishing (DTP). Apple and quark express were the core products for a high number of publishing solutions including newspapers and magazines.

In the year 2000, some 75% of sales were to the traditional business and professional markets. By 2011, the situation had reversed with almost 75% of sales in the consumer markets. The drive for the consumer digital devices had been secured; over 500 million devices were sold. Apple had always relied on a program of constant improvement of Kaizen, in the product offer. Not without reason, the Apple campus in Cupertino was One Infinite Loop, Cupertino, USA. With their motto, smaller, simpler and more features, less expensive, by 2006, the i-pod was into a fifth generation and the family had extended kinship with the appearance of the i-pod shuffle and the i-pod nano.

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In 2007, i-pod touch appeared. The product offer was to swamp the market map in terms of price segmentation and capacity. I-pod provides a price point for every pocket. The nano was a flash based product released in January 2005 costing USD99 for a 512MB version. The solid state Nano appeared in February, available in 2GB and 4GB versions. In October 2005, the fifth generation of i-pod appeared available in 30GB and 60GB with video play capacity. An 80GB version was to follow. The shuffle appeared around the same time. Apple introduced two versions of the "i-pod shuffle", priced at just USD99 or USD149 and respectively holding about 120 and 240 songs based on 512MB and 1GB of memory.

Based on flash memory, the new player was aimed at a low-end segment of the market that had been untapped largely by Apple to date. By the time the Zune (Microsoft version of i-pod) arrived, Apple had created and captured a new market empire defended by a product range extended in price, range and quality. From the USD99 shuffle to the top end video i-pods with 80GB and video capability priced at USD399, the array was extensive.

By 2009, the product offer was comprehensive but maybe lacking internet connectivity and mobile connection. In 2007, it was time to introduce i-phone. Microsoft would laugh at the product because of the price but the world was ready. Like most manufacturers, Apple was dependent on the big retailers like Sears and CompuServe. In the late 1990s, jobs had already started to gather retailers who were not doing a good job for the brand. The manufacturer faced the classic dilemma of controlling product, sales and presentation at point of sales. Share of dealer mind, stock and floor space was critical. Vertical integration into retail seemed the logical solution. Combined with the online store and i-tunes store, owned retail would offer a solution to the dilemma.

There already had been an agreement with CompUSA to develop the Apple shop in shop model whereby some 15% of the store would be devoted to Apple products and merchandise. But the sales failed to materialise. The shop in shops were located at the rear of the store were footfall and sales were lowest. Share of mind was not secured. Jobs recruited retail experience from Gap and Target. The mock up store was created in a warehouse in Cupertino Apple's home base. Jobs wanted to create hands-on experience, with demo machines, tutorials and sample media projects. The stores also included a genius bar where mac users could get their macs repaired or deal with queries or just hang around.

The Apple stores were a success, combined with the launch of the i-pod, the stores were able to replicate the Apple experience, with workshops, youth programmes, one to one training, personal shopping and the "Genius Bar". By the summer of 2009, there were 211 Apple stores in the USA, 45 in California alone. Internationally, there were 48 stores, 21 in the UK, 10 in Canada, 7 in Japan, 5 in Australia, 3 in Switzerland, 1 in Italy and 1 in china.

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By 2012, the number of stores had increased to over three hundred and sixty. Retail sales had increased from USD19 million in 2001 to USD1 billion by 2004 and to USD6.3 billion in 2008. Own retail accounted for 10% of sales in 2003 and almost 20% of total revenues by 2008. According to the 2008 annual report, the average revenue per store increased to USD29.9 million in 2008, compared to USD23.1 million in 2007 according to the 2008 annual report. The company has typically located its stores at high traffic locations in quality shopping malls and urban shopping districts. Sales per square foot average over USD3,000 based on an 8,000 square foot model. By the end of 2011 financial year, retail sales had increased to over USD14 billion. During the year, the company had an average of 326 stores compared to an average of 288 stores during 2010. The average revenue per store increased 27% to USD43.3 million in 2011 compared to USD34.1 million in 2010. A sale per square foot of almost USD5,500.

The development of the i-pod reveals an interesting story of market alliances in the supply chain. According to electronics design chain magazine, much of the underlying i-pod design was performed by outside companies. "The Cupertino folk haven't given up on their heritage of design excellence, they're just bowing to some inevitable directions in consumer electronics by borrowing from established experts linked together for what may be the first design chain for the i-pod." Apple was in a race to get to market within the year.

Given the tough time to market timetable, the company relied on a platform and reference design created by a third party, portal player of Santa Clara, California. Portal player had developed a base platform for a variety of audio systems, including portable digital music devices, general audio systems and streaming audio receivers. It appears that Apple picked portal player because its design expertise yielded the highest quality of sounds, according to industry resources.

The device uses a dedicated MP3 decoder and controller chip from portal player, a Wolfson Microelectronics Ltd. Stereo digital-to-analog converter, a flash memory chip from sharp electronics corp., a Texas instruments 1394 fire wire interface controller, and a power management and battery charging IC from Linear Technologies Inc. Throughout the development of the product offer, the principal of syndicated rather than integrated component manufacturing applied.

Since 2001, Apple revenues have increased from USD5 billion to a USD108 billion in 2011. Gross margins have increased from 23% to over 40%. Operating profits have leapt from a loss of USD344 million to over USD33 billion in 2011. The company has a market capitalization of USD582 billion and an enterprise value of USD550 billion.

Source:

Ashcroft, J., 2012, Apple from the iPod to the iPad... a great case study in corporate strategy., www.theapplecasestudy.com

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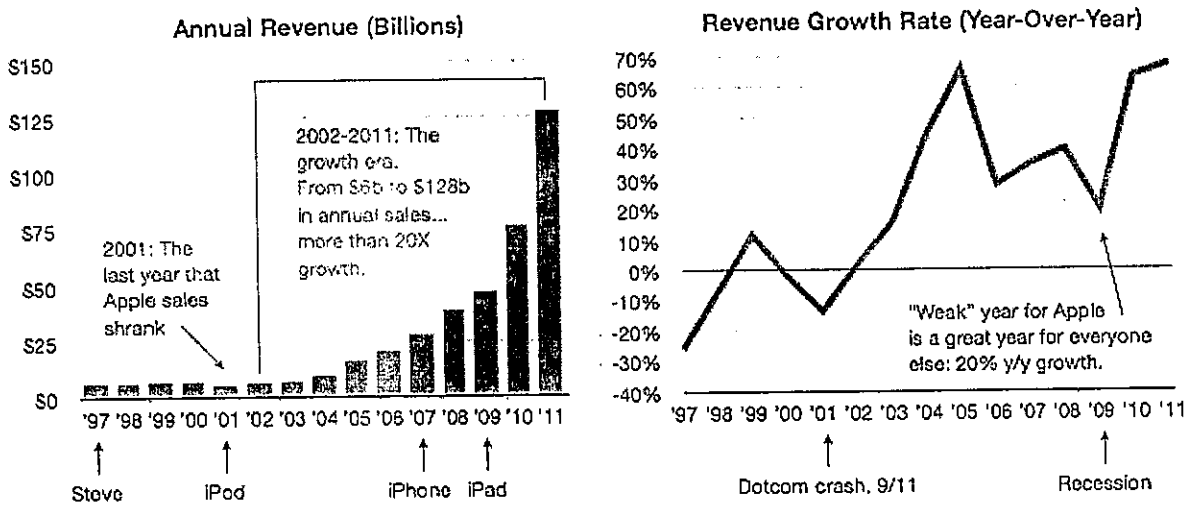
Appendix 1

Apple's Decade Of Growth: 2002-2011



Required

(i) In your opinion, discuss what are the **3 ISSUES** facing Apple in maintaining its market share?

(15 marks)

(ii) In your opinion, is the Apple success a resource based or market driven? Explain the concept of resource based view of the firm and market driven strategy.

(15 marks)

(iii) Based on the above case study, identify and explain with examples **4 KEY SUCCESS FACTORS** of Apple Inc.

(20 marks)

(iv) In your opinion, what is **PREMIUM PRICE STRATEGY** and to what extent did Apple utilize a premium price strategy to test market reaction and sales volume before moving to a more competitive price platform?

(10 marks)

(v) Prepare a **SWOT** analysis for Apple Inc. You are required to identify and explain with examples only **2 ITEMS** for each section.

(40 marks)
Total 100 marks

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